

Message Text

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ACTION EUR-12

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AMEMBASSY BONN
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USEC ALSO FOR EMBASSY; OECD ALSO FOR EMBASSY; GENEVA
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TAGS: EFIN, ETRD, IT
SUBJECT: MINISTER OF FOREIGN TRADE COMMENTS ON ITALIAN PAYMENTS
SITUATION AND DOLLAR DEPRECIATION

1. MINISTER OF FOREIGN TRADE RINALDO OSSOLA TOLD GROUP OF OECD
MEMBER COUNTRY EMBASSY OFFICERS ON MARCH 14 THAT HE EXPECTS
ITALY'S FINAL 1977 TRADE ACCOUNT FIGURE TO BE IN SLIGHT SURPLUS,
THE FINAL CURRENT ACCOUNT SURPLUS TO BE \$2,300 MILLION VERSUS
\$2,000 MILLION FIGURE GIVEN OUT PROVISIONALLY AND THE BALANCE
OF PAYMENTS SURPLUS TO BE \$2,400 MILLION. CONTINUING TO PAINT
ROSY PICTURE FOR HIS LISTNERS, OSSOLA NOTED THAT BALANCE OF
PAYMENTS SURPLUS FOR FIRST TWO MONTHS OF 1978 WAS \$800 MILLION
AND THAT FOREIGN EXCHANGE RESERVES EXCEEDED THE BANK OF ITALY'S
FOREIGN LIABILITIES FOR THE FIRRRST TIME SINCE 1975. HE
ALSO CITED THE REDUCED THREE MONTHS FORWARD DISCOUNT ON THE
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LIRA (CURRENTLY 8 PERCENT VERSUS 25 PERCENT OVER DURING 1977) AS
A GOOD SIGN OF THE STRENGTHENED POSITION OF THE LIRA.

2. RECOGNIZING THAT INDUSTRIAL UNIT COSTS WENT UP BY 14 PERCENT
IN 1977 VERSUS ONLY 9 PERCENT ON AVERAGE FOR THE INDUSTRIAL
COUNTRIES, OSSOLA NEVERTHELESS CONTENDED THAT ITALY'S COMPETITIVE
POSITION IS BETTER NOW THAN IT WAS WHEN CURRENCIES BEGAN

FLOATING IN 1971-72 OR THAN IN 1975 FOLLOWING THE OIL CRISIS.
HE JUDGED THAT INDUSTRIAL UNIT COST INCREASE IN 1978 WILL NOT
BE SO BIG AS TO REQUIRE DEVALUATION OF THE LIRA IF INDUSTRY IS
WILLING TO ABSORB A MARGINAL PROFIT REDUCTION.

3. TURNING TO 1978 BALANCE OF PAYMENT PROSPECTS, OSSOLA
EXPECTED A \$3.4 BILLION SURPLUS WHICH WOULD BE USED ALONG WITH
\$2.5 BILLION OF RESERVES TO REDUCE LIABILITIES, THUS LEAVING ITALY
WITH ABOUT \$5.0 BILLION IN GROSS RESERVES AT YEAR END--EQUAL
TO ABOUT FIVE WEEKS IMPORTS.

4. OSSOLA ENDORSED THE CONCEPT THAT THE WORLD SHOULD NOT LOOK
TO JUST FRG, JAPAN AND U.S. AS ECONOMIC LOCOMOTIVES BUT TO
ALL COUNTRIES IN POSITION TO CONTRIBUTE TO IMPROVED GROWTH
PERFORMANCE. HE CITED APPROVINGLY RECENT US STATEMENT ON DOUBLING
OF SWAP FACILITY WITH ABUNDESBANK, POSSIBILITY OF FILLING 600
MILLION SDR FOR DEUTSCHMARKS AND US READINESS TO USE \$5.0
BILLION OF IMF RESOURCES, BUT REMARKED THESE MEASURES, OF COURSE,
ONLY SOLVED THE DEFICIT FINANCING PROBLEM NOT THE UNDER-LYING
DEFICIT-CREATING PROBLEM. HE SAID ITALY HAD BEEN "FAVORED"
BY DOLLAR DEPRECIATION UP TO NOW BUT THAT ITS FURTHER DEPRECIATION
WOULD NOT BE IN ANYONE'S INTEREST.

5. FINALLY, OSSOLA REMARKED THAT ALL OF US NEEDED TO GUARD
AGAINST INCREASING PROTECTIONIST PRESSURES AND THAT THE TOKYO
ROUND SHOULD BE SPEEDED TO RAPID AND SUCCESSFUL CONCLUSION.
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